



Issue Date	November 28, 2006
------------	-------------------

Audit Report Number	2007-FW-1003
---------------------	--------------

TO: Justin R. Ormsby
Director, Office of Public Housing, 6APH

FROM: 
Frank E. Baca
Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: The Lubbock Housing Authority's, Lubbock, Texas, Lack of Management Controls Resulted in Overhoused Tenants and Miscalculated Assistance Payments

HIGHLIGHTS

What We Audited and Why

We completed a limited review of the Lubbock Housing Authority's (Authority's) Section 8 housing assistance payments as part of our strategic plan. Our objective was to determine whether the Authority operated its Section 8 Housing Choice Voucher program in accordance with its annual contributions contract (contract) and the U.S. Department of Housing and Urban Development's (HUD) requirements. We wanted to determine whether the Authority correctly calculated housing assistance payments and properly applied subsidy standards by ensuring tenants were not housed in units larger than its standards allowed.

What We Found

The Authority did not comply with its contract and HUD's requirements. It overhoused tenants and miscalculated Section 8 housing assistance payments. Our review of the files of 20 potentially overhoused tenants showed that the Authority overhoused 13 tenants and made various calculation errors for 16 tenants, 13 of which resulted in erroneous payments. Due to the errors, the Authority overpaid \$15,096 in assistance and overcharged tenants \$2,479. The

Authority overhoused tenants and miscalculated assistance because its Section 8 program lacked effective policies and controls, including inadequate written policies and procedures, no quality control system to ensure compliance with HUD's requirements and the Section 8 Management Assessment Program (SEMAP), and adverse staffing issues.

What We Recommend

We recommend that HUD require the Authority to ensure the errors in the tenant files are corrected and reimburse HUD \$15,096 and the tenants \$2,479 for the identified errors that affected the assistance payments. Further, we recommend HUD require the Authority's management to implement procedures and controls over its administration of the Section 8 housing program to ensure it is in accordance with its contract and HUD's requirements.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided a draft to the auditee on November 7, 2006, and requested a response by November 20, 2006. The Authority provided a written response on November 16, 2006. The Authority agreed with our finding and recommendations and is taking steps to correct the deficiencies. HUD's Fort Worth Office of Public Housing agreed with the report and stated it would provide management decisions by 120 days.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix C of this report.

TABLE OF CONTENTS

Background and Objectives	4
Results of Audit	
Finding: The Authority's Lack of Management Controls Resulted in Overhoused Tenants and Miscalculated Assistance Payments	5
Scope and Methodology	10
Internal Controls	11
Appendixes	
A. Table of Tenant File Review Results	13
B. Schedule of Questioned Costs and Funds Be Put to Better Use	14
C. Auditee Comments and OIG's Evaluation	15

BACKGROUND AND OBJECTIVES

The City of Lubbock (City) is the ninth largest city in Texas and the largest city in West Texas. The Lubbock Housing Authority (Authority) was established in 1939 to provide decent, safe, and sanitary housing for families of low to moderate income. The Authority is governed by a seven-member board of commissioners appointed by the mayor for two-year terms. It administers a Section 8 Housing Choice Voucher program consisting of 852 vouchers. The Authority's Section 8 staff is located and maintains administrative records and tenant files in its main office at 1708 Avenue G in Lubbock, Texas.

During January 2006, the U.S. Department of Housing and Urban Development (HUD) Fort Worth Office of Public Housing identified the Authority as a candidate for an Office of Inspector General (OIG) audit. HUD considered the Authority troubled and placed it under a memorandum of agreement to improve its operations. HUD also questioned whether the Authority had the capacity to operate its housing programs effectively. The previous executive director left the Authority in November 2005. A deputy director served as the interim executive director from November 2005 until April 2006 when the City assigned one of its managers to be the executive director at the Authority for up to two years.

We selected the Authority's Section 8 Housing Choice Voucher program for review as part of our strategic plan. Our objective was to determine whether the Authority operated its Section 8 Housing Choice Voucher program in accordance with its annual contribution contract and HUD requirements. We wanted to determine whether the Authority correctly calculated housing assistance payments and properly applied subsidy standards by ensuring tenants were not housed in units larger than its standards allowed. Our work was limited in scope to the Authority's Section 8 housing assistance payments calculations and overhousing. Although our testing found problems in calculating assistance and overhousing tenants, we decided not to perform additional audit work because the current executive director acknowledged the Authority had no controls and took steps to correct and revise the Authority's Section 8 problems. The Authority is reviewing all of the Housing Choice Voucher program tenant files and is recalculating assistance payments and reviewing overhoused tenants. HUD is also working closely with the Authority to improve its performance. Thus, we did not see the benefit in auditing the Authority since its operations and practices have changed dramatically including a turnover of most of the Section 8 staff. However, we are issuing this report to ensure the problems we identified are corrected as part of the Authority's overall operational changes.

This is the third of the three audit reports on the Authority's Section 8 program.

RESULTS OF AUDIT

Finding: The Authority's Lack of Management Controls Resulted in Overhoused Tenants and Miscalculated Assistance Payments

The Authority did not comply with its contract and HUD's requirements. It miscalculated Section 8 assistance and overhoused tenants because its Section 8 program had ineffective management and controls, including (1) ineffective or nonexistent policies and procedures, (2) no quality control system to ensure compliance with HUD's requirements and the Section 8 Management Assessment Program (SEMAP), and (3) adverse staffing issues. Consequently, the Authority overpaid or underpaid Section 8 housing assistance payments to 14 tenants, and could overpay or underpay assistance to an additional 4 tenants in the future.

The Authority Overpaid and Underpaid Section 8 Assistance

The Authority overpaid assistance for tenants to reside in units larger than the Authority's subsidy standards allow (overhousing), and it overpaid and underpaid assistance due to calculation errors.

The Authority had 91 potentially overhoused tenants out of the 929 Section 8 tenants assisted during the 24-month review period. Our review of a random sample of 20 potentially overhoused tenants showed the Authority overhoused 13 of them. During the 24-month period from January 2004 through December 2005, the Authority overpaid assistance totaling \$14,009 to overhouse 9 of the 13 tenants. The Authority did not overpay for the remaining four tenants as they either had larger vouchers than necessary while occupying appropriate size units, or they occupied larger units that cost less than the allowable subsidy amount. A further review of the same 20 tenant files showed that the Authority made utility allowance and income calculation errors in 16 of them, 13 of which resulted in overpayments and underpayments totaling \$3,566 for the same period.¹

The Authority made the overhousing and miscalculation errors because its administration of its Section 8 program lacked effective management and controls over the payment calculation process, including

- Inadequate written policies and procedures,
- No quality control system, and
- Negative staffing issues.

¹ See appendix A for detailed results of testing.

The Authority's Written Procedures Were Lacking or Ineffective

The Authority did not have written procedures or policies to ensure that its caseworkers performed essential tenant duties relating to the maintenance of tenant files, including

- Performing initial, annual, or interim certifications;
- Adjusting voucher sizes or subsidy standards based on changes in tenant family composition;
- Verifying tenant necessity for larger vouchers based on medical recommendations; and
- Properly documenting unit qualification or tenant identification.

In addition, its policies did not require changes to subsidy standards until a tenant moved, which is contrary to HUD's requirements. For example, for 4 of the 13 tenants who were overhoused, the family size decreased, but the Authority did not reduce the size of the voucher. Further, the Authority's administrative plan lacked instructions for repaying tenants when an error was made.

The Authority's Section 8 administrative plan was the Authority's only written policy that addressed caseworkers' duties and the maintenance of tenant files. However, the administrative plan lacked sufficient detail to instruct caseworkers on how to carry out the procedures. For example, the Authority overhoused three tenants who had a medical recommendation because it did not interview the tenant or inspect the unit to ensure that the larger unit was a necessity. Further, the Authority's lack of written procedures caused the caseworkers to rely solely on senior staff members for direction in performing their duties and processing the tenant files. However, the Authority currently lacks senior caseworkers to provide guidance, and the caseworkers have no written operating procedures to guide them.

The Authority Had No Quality Control System

The Authority did not have a system to ensure that its Section 8 staff performed quality control file reviews as required by HUD's regulations and its administrative plan. Further, the Authority's administrative plan did not state that quality control file reviews were to be used for monitoring staff performance and providing feedback but instead listed them as a means of detecting program abuse and fraud. The administrative plan also contained requirements to perform quality control reviews of leasing. However, former Authority management overrode or ignored these controls. Consequently, the Authority did not

adequately perform or document quality control file reviews and cannot support its Section 8 Management Assessment Program (SEMAP) self-certification and score.

The former Section 8 administrator either did not perform the quality control reviews or performed them inadequately. She stated she performed quality control reviews; however, she could not show that the reviews were performed, and other Authority staff stated the reviews were not done. If the Section 8 administrator performed the quality control reviews, they served no useful purpose as she did not document the results of the file reviews or discuss the results with the caseworkers. As a result, the caseworkers did not receive feedback as to whether they performed their file reviews properly and in compliance with HUD's and the Authority's requirements.

In addition, the Authority cannot support its September 2005 Section 8 SEMAP self-certification that it had performed the required annual sample of quality control file reviews. Previous Authority management was apparently unaware that support for the quality control reviews did not exist because the former Section 8 administrator stated that management had never requested to see the reports on quality control.

Staffing Issues Had a Negative Impact

The Authority's ineffective management also led to high staff turnover and a lack of direction and training. The Authority has experienced significant turnover in management in the last 10 months. The previous executive director left in November 2005; the director of finance, who oversaw the Section 8 department, left in May 2006; and the Section 8 administrator resigned at the end of July 2006. In addition, during the last few years, the Authority's Section 8 department has seen both a decrease in size and a loss of experienced staff. Within the last 12 months, 13 people have worked in the Section 8 department, but as of August 2006, the department only had a staff of four.

Section 8 and senior Authority staff indicated that the caseworkers had received very little Section 8 training. The former Section 8 administrator stated that the employees were not well trained and that there were no records showing what, if any, training they had received.

The Authority Has Taken Steps to Address the Problems

The current executive director admitted that the Authority had no controls and has changed the operations of the Section 8 program. The Authority is working with HUD and another housing authority to improve its operations. It is currently reviewing all of the Housing Choice Voucher program tenant files. On September 18, 2006, the Authority commenced a Section 8 participant folder review to ensure that each folder contains HUD-required documents, correct income/rent computations, and the correct size voucher for the family's size based on the Authority's subsidy standards. HUD staff indicated that the Authority is improving and has been on-site to provide assistance.

Conclusion

Because the Authority did not have effective management to establish procedures and controls to effectively operate and monitor its Section 8 program, it overpaid assistance to tenants who were overhoused and both overcharged and undercharged tenants due to calculation errors. The Authority's new management has taken steps to correct the problems. However, HUD needs to ensure that the Authority's management establishes and implements policies, procedures, and controls that are consistently followed to prevent overhousing and incorrect assistance payments. Further, Authority management needs to monitor the controls over the tenant file quality control process to ensure that they are not overridden or ignored and ensure that future certifications concerning quality control inspections are supported by adequate documentation.

Recommendations

We recommend that the director of HUD's Fort Worth Office of Public Housing require the Authority to

- 1A. Reimburse HUD \$15,096 for ineligible expenses identified as assistance overpayments during the review (\$14,009 for overhoused tenants + \$1,087 for overpayments from income/deduction and utility allowance errors = \$15,096).
- 1B. Reimburse the tenants \$2,479 that it underpaid for housing assistance identified during the review.

- 1C. Complete its 100 percent tenant file review and repay any other instances of overhousing or miscalculation of assistance. Further, it should assign the appropriate size voucher to those tenants its review identifies as overhoused. The Authority also needs to develop procedures for reimbursing tenants when the Authority makes an error and include those procedures in its administrative plan.
- 1D. Implement procedures and controls, including quality control reviews, to ensure that its caseworkers properly calculate assistance payments and house tenants in appropriate size units.

SCOPE AND METHODOLOGY

We conducted our review at the Authority, the Fort Worth Office of Public Housing, and our office in Houston, Texas. During the review, we performed the following steps:

- Reviewed background information and the criteria that control the Authority and its operations.
- Reviewed various reports, databases, and documents to determine existing conditions at the Authority. The data included the independent public accountant report for fiscal year 2004, information contained in HUD's Public and Indian Housing Information Center system, and monitoring reports maintained by the Fort Worth Office of Public Housing.
- Obtained current data from HUD's PIH Information Center (PIC) that contained housing assistance and related data for all tenants during the audit period. Validated the data for reliability in accordance with professional standards.² Selected a nonstatistical, random sample of 20 tenants from a population of 91 potentially overhoused tenants. The 91 potentially overhoused tenants came from a larger universe of 929 vouchers that the Authority had from January 1, 2004, through March 9, 2006.
- Reviewed the sample of potentially overhoused tenants to determine whether the Authority housed them in units larger than their family composition allowed and recalculated rents for the tenants based on documentation contained in their tenant files.
- Conducted interviews with Authority staff, the independent public accountant, Office of Public Housing staff tasked with oversight of the Authority's operations, and the sample tenants to determine whether units were of the appropriate size when housing quality standards inspections were performed.

We performed our on-site work during March, April, and August 2006 at the Authority's offices located at 1708 Avenue G in Lubbock, Texas. Our review period was from January 1, 2004, through December 31, 2005. We expanded the scope of our review as necessary. We performed our review in accordance with generally accepted government auditing standards.

² Government Accountability Office, "Assessing the Reliability of Computer-Processed Data," GAO-03-273G, October 2002.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined the following internal controls were relevant to our audit objectives:

- Effectiveness and efficiency of program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resources are used consistent with laws and regulations.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

- The Authority lacked effective management and controls over its housing assistance payments to ensure that they complied with HUD's requirements.

- The Authority lacked an effective quality control system that complied with HUD's Section 8 Management Assessment Program (SEMAP) requirements.

APPENDIXES

Appendix A

TABLE OF TENANT FILE REVIEW RESULTS

Overhoused (1)			Housing assistance payment miscalculations (2)		
Sample (3)	Overhoused?	Overpaid	Housing assistance payment error?	Housing assistance overpaid	Housing assistance underpaid
1	Yes	0	Yes	32	
2			Yes	0	
3	Yes	2,178	Yes		1,676
4			Yes	0	
5	Yes	882	Yes		288
6			Yes		368
7					
8	Yes	455			
9	Yes	522	Yes		20
10	Yes	3,356	Yes	443	
11			Yes	0	
12	Yes	0	Yes	5	99
13	Yes	2,676	Yes	96	
14	Yes	3,116	Yes	156	
15			Yes	194	
16	Yes	194	Yes		28
17	Yes	0	Yes	96	
18	Yes	630	Yes	65	
19					
20	Yes	0*			
Totals	13	\$14,009	16	\$1,087	\$2,479

Results

- Thirteen of the tenants were or could be overhoused. The Authority overpaid \$14,009 to overhouse nine of them. The Authority did not overpay for the remaining four tenants as the tenants either had a voucher for more bedrooms than needed but they occupied an appropriate size unit, or they occupied a larger unit but the cost of the larger unit was less than the maximum subsidy allowed for the appropriate size unit.
- Sixteen of the tenants' files had housing assistance payment calculation errors including utility allowance, income, and/or deduction errors. The Authority overpaid \$1,087 and underpaid \$2,479 for thirteen of the tenants totaling \$3,566. The calculation errors in the remaining three tenant files did not result in payment errors. The overpayments are an ineligible use of HUD funds. The underpayments are funds to be put to better use.
- Eighteen of the twenty tenants had overhousing or payment calculation errors. Fourteen of the tenants had erroneous payments based on those errors.

Appendix B

SCHEDULE OF QUESTIONED COSTS AND FUNDS BE PUT TO BETTER USE

Recommendation number	Ineligible <u>1/</u>	Funds be put to better use <u>2/</u>
1A	\$15,096	
1B		\$2,479
Totals	\$15,096	\$2,479

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.

2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In this instance, if the Authority implements our recommendation, it will ensure that tenants are reimbursed for personal funds they should not have expended as the Authority underpaid the amount of assistance they were entitled to receive under the Section 8 Housing Choice Voucher program.

Appendix C

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



HOUSING AUTHORITY OF THE CITY OF LUBBOCK

P.O. BOX 2568 LUBBOCK, TEXAS 79401 MAIN OFFICE 806-762-1191 FAX 762-0836

November 16, 2006

Mr. Frank Baca, Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
819 Taylor Street, Room 13A09
Fort Worth, TX 76102

Dear Mr. Baca:

I have had an opportunity to review the draft report from your office regarding the Lubbock Housing Authority's Section 8 Program. The LHA has no issues with the report.

The Lubbock Housing Authority is in agreement with the audit findings and recommended corrective actions that resulted from the OIG on site visit. The Authority will reimburse the under paid Section 8 program participants identified during the review. In order to address the non-compliance issues that were discovered in the participant file folders a complete review is on-going to correct all discrepancies. During the review over and under housed, over and underpaid participants will be identified and corrections will be made. Any HUD required documents omitted from the files will be completed and attached to the file in the proper category. The target date for completion is December 31, 2006.

The Section 8 Administrative Plan is currently being reviewed and updated in order to implement procedures and controls necessary for efficient management. The review also includes local policies governing Section 8 operations to include quality control measures. All of the aforementioned is aimed toward the elimination of findings and discrepancies during the OIG site visit.

Should you have questions or require additional information, please call me or Fulton Berry at (806) 762-1191 Extensions 237 or 203 respectively.

Sincerely,



Quincy White
Executive Director

Comment 1

OIG Evaluation of Auditee Comments

Comment 1

The Authority agreed with our finding and recommendations and is taking steps to correct the deficiencies.